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GEOGRAPHY

Latvia is located in Eastern Europe, bordering the Baltic Sea, between Estonia and Lithuania.

The total land area is 64,100 km². Latvia's land boundaries total 1,078 km, shared with Belarus 141 km, Estonia 267 km, Lithuania 453 km, and Russia 217 km.

Along its 500 kilometre coastline, lie the ice-free seaports of Ventspils, Liepaja, and Riga. The country has very few natural resources and imports all of its natural gas and oil needs as well as half of its electricity needs. Woodlands cover almost 40 percent of its territory.

The climate is maritime; with wet, moderate winters. The terrain is low plain. Natural resources

are minimal but include amber, peat, limestone, and dolomite. Current environmental issues include: air and water pollution because of a lack of waste conversion equipment; the Gulf of Riga and Daugava River are heavily polluted; and there is contamination of soil and ground water with chemicals and petroleum products at former Soviet military bases.

Administratively, Latvia is divided into 26 counties and 7 municipalities. While industrial and agricultural machinery and equipment are key industries, Latvia also has an advanced industrial sector, producing electronic and high quality consumer goods.



DEMOGRAPHICS

The population of Latvia is 2.7 million, with a population density of 40.2 inhabitants per km². Close to 71 percent of the population live in urban areas and about 856,000 people live the capital, Riga. Overall, the country has experienced a population growth of 0.5 percent, while Riga has experienced a population loss of close to 11 percent since independence.

Twenty-two percent of the population is under 14 years; 65 percent is between 15-64 years; and 13 percent is 65 years and over. The birth rate reached 13.71 births per 1,000 population while the death rate was 12.49 deaths per 1,000 population. The net migration rate was 3.76 migrants per 1,000 population. Demographic indicators are presented in Table 1.

The nationality is Latvian. Ethnic divisions include Latvian (51.8 percent), Russian (33.8 percent), Byelorussian (4.5 percent), Ukrainian (3.4 percent), Polish (2.3 percent), and other (4.2 percent).

Religions include Lutheran, Roman Catholic, and Russian Orthodox. Languages spoken are Lettish (the official language), Lithuanian, and Russian.

Table 1:
Demographic Indicators

Population (million)	2.7
Population Density (1994)	40.2 per km ²
Population by Age	
0-14	22%
15-64	65%
65+	13%
Literacy Rate	99%
Population Growth (% projection 1992-2000)	0.5
Urban Population (% of total, 1994)	71.0
Human Development Index (ranking out of 174 countries, 1992)	48

Sources: EIU, 1995; UNDP, 1995, WB, 1996

ECONOMIC OVERVIEW

Latvia is rapidly becoming a dynamic market economy, rivalled only by Estonia among the former Soviet states in the speed of its transformation. Latvia's recovery has been helped by the country's strategic location on the Baltic Sea, its well-educated population, and its diverse, although largely obsolete, industrial structure.

Since its independence in September 1991, Latvia has initiated the economic and political transition to a free-market economy, involving programs to eliminate price controls, restrain inflation and privatize the economy. As a result, the economy is liberalized, with less government intervention. However, a series of price liberalizations and the opening up of previously sheltered markets has resulted in a decline of industrial output.

In 1995, Latvia experienced serious budgetary problems and a banking crisis, though some signs of economic recovery were evident in 1996 when GDP increased by 1 percent. This appears to be continuing as the Latvian government expects GDP to grow by 3 percent in 1997. Industrial output rose by an inflation-adjusted 1.8-percent rate in 1996 compared to 1995 levels, with some sectors like food manufacturing, paper and wood manufacturing growing by 20-49 percent.

Tight fiscal policies have reduced inflation from 958 percent in 1992 to 26 percent in 1995. The government is hoping to reduce the annual rate of inflation to 10-12 percent in 1997. Latvia has a freely convertible national currency, the Lat, which is quite stable. The exchange rate in October 1996 was LVL 0.55:1 US\$.

Although structural reforms have proceeded successfully in the agricultural sector, the record of privatization has not been encouraging. Following the government's efforts to accelerate the process, the Latvian Privatization Agency is currently negotiating the sale of gas distribution, energy and utility companies to foreign investors. The privatization agenda includes 210 state enterprises, (for example the Latvian Shipping Company), 117 pharmacies, and 6 real estate properties. Both Latvian and foreign investors will be subject to the same conditions.

Economic reforms have created an import-oriented private sector. The share of GDP in the private sector is over 55 percent, while GDP per capita is US\$3,287 (1995 figures). The total foreign debt stood at US\$568 million in 1996. According to the Ministry of Labour in 1996, the number of registered unemployed was 7.1 percent and increasing. Regional unemployment differences are significant: the unemployment rate in Riga was 3.2 percent, while in the under-developed eastern regions of Rezekne and Kraslava, it was higher than 25 percent.

Foreign direct investment in Latvia is approximately US\$288.9 million and is increasing; the sharpest increase is in transport, storage, and telecommunications. Denmark is the largest investor, followed by Russia and the U.S. Foreign direct investment in the construction sector is approximately LVL 7.96 million. Table 2 illustrates key economic indicators in Latvia.

Table 2:
Key Economic Indicators

	1994	1995	1998 (est.)
Real GDP (% growth)	0	-2	1
GNP per capita (US\$ at Purchasing Power Parity [PPP])	4,770	3,287	N/A
Average Gross Monthly Wages (LVL)	N/A	89.5	113.25
Private Sector Share of GDP (%)	55	60	60
Unemployment Rate (%)	N/A	6.1	7.1
Inflation Rate (%)	36	26	20
Trade Balance (US\$ million)	-228	-382	-488
Gross Debt (US\$ million)	N/A	459	568
Foreign Direct Investment (US\$ million)	79.8	288.9	N/A

Sources: EBRD, 1996; ECE, 1996; EIU, 1995, 1996a; WB, 1996

Hansa Investments (involving major international institutional investors) manages strategic

investments in the three Baltic States. Reportedly, close to \$12 million out of the \$40 million Baltic Basin Fund will be invested in Latvia, particularly in hotels, real estate and port developments.

World Bank Economic Assessment

Latvia experienced a fall in real GDP in 1992 and 1993 that was reversed with an increase of 2.2 percent in 1994. Real GDP remained stagnant in 1995, but was expected to experience a modest growth in 1996. Inflation has declined steadily since independence and there have been significant achievements in the key areas of structural adjustment. Latvia's aspiration to reintegrate into Europe has driven its economic reform program. This aspiration has fostered a large degree of consensus and has allowed Latvia to progress in economic stabilization and its transition to a market economy.

By the end of 1995, however, the economy experienced serious difficulties. The widening of the fiscal deficit, which started in late 1994, and the loss of confidence in the banking system, which began in 1995, dominated the developments in the economy.

The banking crisis began with the failure of the largest bank in the system and some smaller banks covering about 40 percent of the banking system's total assets. The main causes of the problem were poor management, imprudent loans, and inadequate supervision. The government responded by enacting a more robust legal regulatory and supervisory framework. The number of banks licensed for full bank operation was reduced and, with the interventions of the central bank to restore stability in the foreign exchange market, confidence in the banking system improved.

Factors contributing to the rising fiscal deficit included growing wage payments as well as a decline in tax revenues, rising tax arrears reinforced by the banking crisis, and the overall slowdown in the economy. To reduce the fiscal deficit, the government began to cut expenditures, but the pressure on the budget continued and the fiscal deficit amounted to about 3.3 percent of GDP in 1995.

Nevertheless, progress in key areas of structural adjustment has been significant: prices have been liberalized; the trade regime has opened; and privatization of small businesses, agricultural land, and banking institutions is well advanced. The government has also made efforts to reform the social safety net, focussing on social benefits specifically aimed at lower income groups.

In addition, to encourage foreign investment, the government has established the Latvian Development Agency, which is designed to be a "one-stop-shop" that provides foreign private investors easy access to advisory services on regulations, local business conditions, and investment opportunities in the country. With the legal framework for privatization in place, private sector involvement in the economy is expected to increase substantially. However, Latvia's macro-economic progress has been overshadowed by the crisis in the banking sector and a rising budget deficit that emerged in early 1995. Also, the average official unemployment rate was 6.3 percent in 1995 and is likely to increase as large state-owned enterprises are privatized or restructured.

The government is developing unemployment insurance and labour market services to support the necessary reallocation of labour, and the country has a comprehensive set of transfer mechanisms to protect the most vulnerable groups. Also, a new pension law is being discussed which would gradually introduce a multi-tier pension system. The new system envisages the separation of basic provisions from earnings-related provisions, the introduction of funded benefits, and a gradual increase in the retirement age.

The government has made a strong commitment to economic stabilization. It has consistently maintained fiscal moderation and an independent monetary policy with visible progress in privatization. With the continuation of present policies, Latvia's GDP is projected to rise by about 5 percent for the remainder of the decade. In addition, external debt is projected to remain around the current level of 9 percent of GDP. Debt service payments are projected to increase from 3 percent of total exports in 1996 to about 7 percent by the year 2000.

POLITICAL OVERVIEW

Latvia is a parliamentary democracy, governed under the constitution of 1933 that was restored in October 1993. The government is a coalition of the Saimnieks Democratic Party (one of the largest), the centre-left Saimnieks party, and Latvia's Way. Frequent political changes of cabinet ministers and conflicts within the government contribute to political instability.

Immediate government priorities are related to the strengthening of the national currency, strict fiscal policy, the promotion of investment, and legal reforms concerning financial institutions. The government is also committed to improving regional politics and relationships. In May 1995, the three Baltic presidents signed a "partnership for integration" in order to facilitate an integrated

effort to join the European Union and NATO. The investment climate improved substantially in 1996 as the coalition government developed a more favourable policy towards foreign investment and made progress towards privatizing state enterprises.

It should be noted that while the Latvian government and all the major political parties support a free-market system, Soviet methodology and regulatory traditions are still present at the lower levels of bureaucracy.

The leading political issue that could affect Latvia's business climate would be any serious downturn in relations with Russia, given this support at the lower levels of the bureaucracy.

TRADE POLICY

Trade liberalization has been a major part of the reform process. Latvia, historically has been an exporter of agricultural and wood products. However, the loss of Soviet markets, coupled with an imbalanced restructuring, have resulted in a negative overall trade balance. The trade deficit doubled in 1996 compared to 1994. The European Union is Latvia's largest trading partner supplying 49.5 percent of its imports, while accounting for 42.8 percent of its exports. Russia's share of imports was 19.6 percent compared to 24.8 percent of exports. Other major trading partners include Germany, Sweden, Finland, Belarus, Lithuania and Ukraine. In addition to forest and wood products, Latvia is moving towards exporting

more value-added products, such as plywood and veneer sheets, which rose by 57 percent in 1996.

Latvia is pursuing foreign trade policies consistent with market reforms and trade liberalization. It has free trade agreements with the European Union, Norway and Switzerland. In April 1994, a trilateral free trade agreement, abolishing tariffs on industrial products between the three Baltic States was implemented, while a customs union of the three countries will be established by 1998. In addition, Latvia has bilateral investment agreements with 18 countries, including the EU, Canada, the United States, the Czech Republic, and Poland.

HOUSING CONDITIONS

Overview

Recent policy reforms, restitution and privatization have changed the existing tenure structure. Overall, the share of public rental stock is still considerably high at 54 percent, while in Riga, public housing accounts for 72 percent of the total housing stock. Reportedly, tenants sell occupancy rights on the open market, exchanging their units for a substantial amount of cash. The proportion of owner-occupied units is lower in the capital city and large urban centres than in rural areas; the national average in 1994 was close to 39 percent, while in the capital city it was 11 percent. Nationally, the share of private rental stock has increased significantly, reaching 5 percent, and public housing in the rural areas has decreased from 19 to 2 percent.

In 1994, the total housing stock in Latvia was 940,000 units, with a ratio of 370 housing units per 1,000 inhabitants.

The housing deficit was greater in Riga where housing consumption per person was 19.4 m²,

compared to the national average of 20.9 m². The number of households exceeds the number of dwellings. For example, overcrowding, reflected in the ratio of persons per room, is as high as 1.2 in the public rental sector.

Density indicators highlight another dimension of housing problems: not only are the number of dwellings less than the number of households, but their size and number of rooms are inadequate, compared to the size of the household. The average size of a unit in the public sector is 48.2 m², and a disproportionately high number of households live in one and two-room flats. Some estimates suggest an absolute shortage of over 129,000 housing units. In 1991, close to 156,000 "needy" households were registered with the municipalities, while in Riga, 90,000 households were on the municipal waiting list. Due to the new screening procedures and allocation criteria introduced in 1996, only 10 percent of households re-registered in the new housing needs register in Riga. Housing conditions by tenure type are shown in Table 3.

Table 3:
Housing Conditions by Tenure Type, 1994

Tenure Type	Percentage of the Housing Stock	Household/ Dwelling	m ² / Person	Persons/ Room	Number of Units (000s)	Units in Single-family Buildings (%)	Units in Multi-family Buildings (%)
Public rental*	54%	N/A	20.1/19.3	1.2	513	2.8%	97.2%
Riga	72%	N/A	19.7/19.1	N/A	207	1.0%	99.0%
Private rental*	5%	N/A	N/A	N/A	50	5.5%	94.5%
Riga	11%	N/A	N/A	N/A	32	2.4%	97.6%
Owner-occupied*	39%	N/A	20.8	1.1	370	76.2%	23.8%
Riga	16%	N/A	21.9	N/A	46	23.9%	76.1%
Other*	2%	N/A	19.8	1.2	16	2.3%	97.7%
Riga	1%	N/A	17.9	N/A	3	1.0%	99.0%
Total*	100%	1.13	20.9	1.2	940	-	-
Total Riga	100%	1.25	19.4	N/A	289	-	-

* The data reflects housing characteristics at the national level.
Source: MRI, 1996

**Table 4:
Housing Quality Characteristics**

	Piped Water (% of flats)	Piped Sewer (% of flats)	Bath or Shower (% of flats)	District Heating*	Housing Built Since 1960 (%)
Latvia (national)	90.8	89.1	79.8	79.8	62.8
Riga	98.8	97.1	83.2	83.0	N/A

* Defined as percentage of dwellings provided with any heating installation serving one building or one flat.
Source: MRI, 1996

In Latvia, the poor quality of the existing housing stock has attracted significant public attention. Water supply and sewerage systems are generally better developed in the urban areas. However, close to 10 percent of households nationally have no access to those basic services.

Over 83 percent of the dwellings in Riga are equipped with bath or shower, compared to the national average of 79.8 percent. Nationally, district heating is widely spread in Latvia, where the share of dwellings serviced by the system is close to 80 percent (83 percent in Riga).

Substandard housing totals 15,900 units, or more than 10 million m². With respect to tenure patterns, the share of inadequate and substandard housing is higher in the owner-occupied and restituted housing sectors. These results reflect the lower housing quality in the rural areas, and a systematic disinvestment and deferral of maintenance in owner-occupied housing over the last few decades. Expert evaluation indicates that

84 percent of the housing in urban areas needs considerable investment in renovation, while 4 percent requires major repair.

The distribution of the housing stock by age and type is very diverse. In Latvia, close to 63 percent of the housing stock was built after 1961. A large proportion of the housing in the larger urban centres of Riga, Liepaja and Daugavpils is relatively uniform, consisting of mass-produced highrise apartment buildings. The units, averaging 55 m², are built of prefabricated elements and are of poor quality, suffering from deferred maintenance.

Overall, there is a limited choice of housing types, styles and quality levels. It should be noted that the percentage of apartment buildings is 97 percent in the public rental sector (99 percent in Riga), while owner-occupied single-family housing is close to 76 percent (about 24 percent in Riga). Housing quality characteristics are shown in Table 4.

HOUSING SECTOR

Overview

Subsidy cuts have contributed to the sharp decline in housing input, decreased capital investment, and a substantially reduced flow of municipal housing services. The government's priority is towards the renovation of the existing stock; highrise panel apartment buildings in particular. The government is also planning to initiate the construction of small-scale medium-density housing, using local materials. The shortage of funds is a major barrier for new housing construction.

With the lack of a consistent housing policy and no housing subsidies planned, municipalities are faced with many problems. Rents are controlled and kept at a very low level, barely covering operating costs. A new provision of social housing might be considered after the year 2000.

Relevant Regulatory Systems

Approximately 100 regulations, laws and guidelines exist in Latvia, providing the legal framework for the housing sector. Soviet legislation concerning the most important issues such as property rights, privatization of dwellings and land, property tax, physical planning and construction, is gradually being replaced.

The construction process is regulated under the Law on Building, adopted in 1995. It specifies the rights and responsibilities of the main participants in the provision process and defines the state and municipal division of responsibilities, including those relating to product certification and the licensing of construction companies. Although some of the old Soviet regulations are still in place, Latvia has approved 14 building standards. Building permits are issued upon the presentation of plans proposed by a professional architect. However, changes in zoning or proposed revisions of the Master Plan might be difficult and can take six months or longer.

Housing as a National Priority

The privatization of state housing in Latvia has been very slow due to political differences and ethnic controversies surrounding the issue. Under

a privatization law passed by Parliament in July 1995, Latvian citizens are allowed to privatize their housing and land, whereas non-citizens can acquire ownership rights over the dwelling and the right to use the land. Tenants can use privatization vouchers or cash to purchase the dwellings over a ten-year period. In a recent poll, 20 percent of the people indicated that they will use privatization vouchers to buy housing, while 14 percent stated that they would buy land instead. It is expected that in Riga about 200,000 units will be offered for privatization until 1997.

The privatization of cooperative housing has made considerable progress, with over 56 percent of the apartments sold by the end of 1994. Rural housing owned by collective farms was also privatized during the transformation process into shareholder companies. Members of collective farms received a share of free housing corresponding to their initial investment and wages accumulated while working at the farm.

Restitution, which began shortly after independence, has been delayed by cumbersome processing procedures. The restitution legislation applies to land, forests, and residential and industrial buildings. Reportedly, 50 percent of the 222,562 claims on buildings have been approved so far, while close to 8,160 buildings with 59,000 dwellings were restituted up to 1995. Former owners can acquire their property provided it is vacated voluntarily (compensation mechanisms exist). Landlords frequently face liabilities because tenants are in arrears with rent or utilities, or the quality of the housing is poor due to inadequate maintenance.

Key Housing Market Institutions

The Ministry of Environmental Protection and Regional Development is responsible for coordinating building activities, planning major construction projects, and defining housing and construction policies. The construction of state-owned housing is carried out by municipal housing management companies, while housing privatization is the responsibility of the Ministry of Economics. The decentralization of responsibilities has resulted in transfer of state-owned housing to

municipalities. Municipal maintenance companies have been restructured to operate independently, with close to 50 companies managing 200,000 dwellings in Riga.

State of the Local Housing Market

The economic recession has hit the housing construction industry in Latvia especially hard. A massive decline in housing output was the initial effect of the retreat by the state from the provision of housing. Though private housing investment increased slightly, it was not sufficient to offset the massive decline in state and cooperative funds. Housing investment was \$49 million in 1994 (1.6 percent of GDP), a considerable drop from \$339 million in 1990. The table below shows housing investment for the period 1990-94 in Latvia.

Table 5:
Housing Investment 1990-94
(in million \$US)

	State and Local Govt.	Co-operatives	Private Persons	Total	Share of GDP
1990	256.3	92.3	30.4	339.0	4.5
1994	3.4	9.6	36.1	49.1	1.6

Source: MRI, 1996

The production of new housing decreased dramatically from 5 units per 1,000 in 1990 to a record low of 0.8 in 1994. In the mid-1990s, housing starts had fallen to an extremely low level of 3,400 units. Housing output by 1994 was close to 17 percent of the total reached in 1980. The decline in new housing provision in Riga was more pronounced, where only 310 units were built in 1994, almost all through government support. Though production and investment in housing fell sharply in the 1990-94 period, anecdotal evidence suggests that shifts from new construction to renewal and rehabilitation is occurring, which might be offsetting declines in new construction to a considerable degree. For example, the share of reconstruction/repair activities in 1994 was 26 percent, compared to 61 percent for new construction. Table 6 illustrates new housing construction by type of developer.

Table 6:
New Housing Construction by Type of Developer

		1980	1990	1994
National	State and local government	14,100	9,100	1,100
	Co-operatives	4,100	3,000	1,500
	Private persons	1,200	1,200	800
	Total	19,400	13,300	3,400
Local-Riga	State and local government	6,670	5,260	0
	Co-operatives	0	0	300
	Private persons	530	240	10
	Total	7,200	5,500	310

Source: MRI, 1996

The transition from planned to market-driven has resulted in the considerable growth of private sector involvement in the supply of new housing. The share of cooperative and private construction has increased to over 50 percent of the overall output. In 1995, 86 percent of the construction work was carried out by private construction companies. Private sector activity is considerably affected by the recession, sharply rising prices, inflation and falling real incomes. Due to financial difficulties, a large number of dwellings cannot be completed—4,452 in 1995.

The outlook for growth is not encouraging. Output levels in the year 2000 are expected to barely reach half of the construction level of the pre-transition period.

Land costs vary widely according to the size of the city and location. Defined as a percentage of the total house price in a typical new housing development, they are below 20 percent in Latvia. Serviced land is 2 to 2.5 times more expensive than undeveloped land with planning permission for residential construction. Anecdotal evidence suggests that lot costs in built-up areas within the inner city that are suitable for apartment development can be greater than US\$150-300 per m². Land for single-family housing is reportedly cheaper and usually located in the urban periphery.

Construction costs are difficult to forecast and estimates do not remain valid for long because of inflation and uncertainty about the availability or cost of building materials. With construction time

varying between 8-30 months, reported costs in 1995 were LVL 200 per m² at the national level; construction costs of a single-family house might be lowered to LVL 120-140 per m². The prices of building materials are increasing much faster than the average consumer price index.

The physical and design characteristics of apartment buildings have broadened in the last five years. Since 1990, newly constructed five- to eight-storey buildings have accounted for between

55-75 percent of the total housing output. The share of individual houses has increased up to 67 percent. In recent years, the average size of both new apartments and houses is 79 m² and 166 m² respectively. The tendency to move away from prefabricated panels to brick and other technologies is clearly demonstrated throughout the country. Costs and size of newly-built units for 1994 are illustrated below.

Table 7:
Costs and Size of Newly-Built Units, 1994

	New Units Per 1,000 Population			Land Cost ¹	Construction Cost ²			New Unit Size, m ²		
	1990	1994	%1990/ 1994		1990	1994	%1990/ 1994	1990	1994	%1990/ 1994
Latvia	5	0.3	6	20	N/A	320	N/A	61	79	130

1. Defined as the land price as a percentage of the total house price (including land price) for typical newly constructed units.

2. Defined as the present replacement cost (labour, materials, on-site infrastructure, management and contractor profits) in \$US per m² of a median-priced dwelling unit.

Sources: CUI, 1996; MRI, 1996

MATERIALS, LABOUR AND FINANCING

Overview

The privatization of the building industry has proceeded decisively in Latvia. New firms have emerged from the original vertically integrated structures, with the potential to operate more efficiently in the market environment. In 1994, the number of building companies reached 740, with close to 32,000 employees. Over 60 percent of those companies are private corporations with less than 50 employees. Table 8 shows the structure of the building industry in 1994.

Table 8:
Structure of the Building Industry, 1994

Indicator	Number
Public corporations	209
Public employees	N/A
Private corporations	495
Private employees	N/A
Companies with:	
0-49 employees	507
50-99 employees	114
100-499 employees	33
Total	704

Source: MRI, 1996

The housing industry in Latvia is in the process of restructuring. A range of different organizations, varying by size, ownership, and expertise, have established their presence in local housing markets. The existence of a large number of small firms in

the single-family home-building and renovation sectors reflects: the ease of entry into the industry; the nature of the development process; the demand for small-scale traditionally built housing (generally constructed with little to no prefabrication); and the lack of economies of scale.

Materials

The production of building materials was stable throughout 1991 due to increased demand in the Commonwealth of Independent States. However, since the increase in energy prices in 1992, construction material prices have escalated to become 40-percent higher than those in neighbouring countries. Consequently, as imports increased, local production decreased.

Private enterprises produce approximately 10 percent of the total output. These are mainly small, but flexible companies, with a limited production capacity. Often, these companies expand their portfolio through the privatization of municipal or state assets. Mixed ownership companies are also emerging. Table 9 shows statistics on the local production of building materials.

Labour

The construction sector has maintained a relatively steady share of 6 percent in the overall sectoral distribution of employment. The average monthly wage in the construction sector was LVL 100.88, or approximately US\$183 in July 1996, with the minimum wage periodically adjusted by the Latvian Parliament. By law, blue collar workers have a 48-hour work-week compared to 40 hours

Table 9:
Local Production of Building Materials

	1985	1990	1991	1993	1995
Bricks (000s)	648.0	859.8	916.7	94.0	19.5
Prefabricated concrete structures and elements (000 m ³).	1495.4	1498.0	1259.2	102.3	34.3
Sawn-wood (000 m ³).	866.0	795.4	673.2	445.1	272.8

Source: National Statistical Institute, 1996

for white collar workers. Minimum health and safety standards for the workplace exist, but are sometimes ignored, and labour unions hold little political power. Latvian companies under-report workers' salaries, while foreign-owned companies insist on paying all payroll and withholding taxes. Skilled and reliable construction workers are in short supply in Riga, with Western renovation, housing and office projects competing for them. Reportedly, salaries offered are higher compared to local standards.

Financing

The banking system shows signs of recovery from the 1995 crisis caused by the collapse of Banka Baltija and several other commercial banks. It is expected that mergers and acquisitions of 15 more banks will follow. Foreign partners are avoiding letters of credit, perceived as high risk in the Latvian context. Latvia's banking system is mainly private, with some exceptions, for example, Krajbanka (State Savings Bank).

Though short-term lending rates have been falling, they are still in the range of 30-35 percent so commercial credits are not being used for housing purchase or construction. Interest rates on bank deposits were 14-16 percent in 1995, lagging behind the 20-percent inflation rate. Interest rates are expected to be 10-13 percent in 1997.

The local banking sector is not committed to special housing financing initiatives, as interest rates are 1-1.5 percent lower than commercial credit rates. The Latvian Mortgage and Land Bank (LMLB) was founded by the government as a state commercial bank in March 1993. Until the second quarter of 1995, the amount of short- and long-term credits given by LMLB was 669,260 Lats, including 144,800 in mortgages. In 1995, the annual interest rate was 30-32 percent, with a down payment of 30-50 percent of the market value, and a repayment period over 3 years (although this might be extended to 9 years). Several other commercial banks issue mortgages under the same conditions.

HOUSING MARKET ACTIVITY, NEED AND DEMAND

Housing Market Activities

Housing market activity primarily includes property transactions of privatized and restituted housing, and exchanges within the existing owner-occupied stock. There were about 4,000 transactions in Latvia in 1994 and close to 4,200 in 1995. The turnover is estimated to be 3 percent of the housing stock, overall. Of the 456 land transactions recorded in 1994 by the land register in Riga, 40 percent were declared as a gift and therefore were free of tax. The Brokers Association "Lanida" estimates that close to 300 monthly transactions are taking place. The previous communist uniformity of land and house prices has given way to a fairly diversified and sophisticated system reflecting location, quality, accessibility and level of services. This has resulted in the formation of distinct housing sub-markets reflected in house price maps of urban areas.

House prices are increasing, particularly in Riga, where a single family house built in the 1980s might cost US\$30,000. Pre-war houses with no amenities and in poor condition sell for US\$10,000-12,000. Real estate agents report sales in the upscale market in the range of US\$100,000-250,000. These prices refer to newly-built housing, with 300 m² of floor space, and over 2,000 m² of land in an attractive urban location by the lake, 10 km from the centre of Riga. House

price dynamics in Riga for the period 1995-96 are presented in Table 10.

In general, prices in the large urban centres do not reflect a maturing of the market to any degree. Instead they reflect the rather unrealistic expectations of future profits. Price expectations tend to contribute to a sluggishness in the market; with the elimination of price controls and macro-economic regulation, the market prices of housing "overshoot" their long-run equilibrium price, until supply catches up with demand.

Local Housing Need

Low wages and employment uncertainty coupled with high housing costs and mortgage rates have reduced the demand for owner-occupied housing. Even though households are prepared to pay higher costs for their housing, they have found themselves squeezed out of the home-ownership market with very little chance of improving their housing situation. The ratio of income-to-house-price in Latvia is 1:3. In large urban centres including Riga, the gap between income and entry costs has increased more dramatically, reaching a ratio of 1:10.

Despite rent increases in public sector housing, the overall rent-to-income ratio is relatively low, about 1.8 percent of the average household income in 1994. Rent and utilities consume 11 percent of

Table 10:
House Price Dynamics in Riga, 1995-96

Sub-markets	Apartments		Privatized Co-operative Apartments		Restituted Houses		Newly-Built Apartments	
	1995	1996	1995	1996	1995	1996	1995	1996
Old Town	N/A	N/A	290	290	580	440	N/A	N/A
Inner City	280	280	N/A	N/A	250	230	620	800
Housing estates	200	210	180	160	N/A	N/A	320	340

* Prices are in US\$ per m². Current exchange rate: 0.55 LVL equal to 1 US\$.
Source: CUI, 1996

the household budget. Meanwhile, the rate of tenants in rent arrears has escalated to 44.8 percent. In the cooperative sector, the condominium fee amounts to 1.9 percent of household budgets, while utilities account for 9.1 percent. Individuals in utility fee arrears was exceptionally high at 37.9 percent. Housing costs in the owner-occupied and rental sectors in 1994 are shown in Table 11.

Table 11:
Housing Costs in the Owner-occupied and Rental Sectors, 1994

	Public Sector Rentals (as a % of average income)			Owner-occupied
	Rent	Utilities	Rent and Utilities	Ratio of house-price-to-income
Latvia	1.8	9.1	10.9	1:3

Source: MRI, 1996

While there is a general tendency for public authorities to avoid confronting the difficult decision to increase rents, the Latvian government announced plans to remove rent control in order to raise funds for major renovation and repairs in the private and public rental stock. Current rents cover only a fraction of the maintenance expenditure. Most of the criticism against those measures is based on the assumption that the policies will lead to widespread non-payment and evictions.

Factors Affecting the Demand for Housing

In 1994 there were 1.06 million households in Latvia. With emigration more pronounced immediately after the independence, the number of households declined considerably by 70,000. The average household size is 2.4 persons, while in rural areas, extended families are more common.

Income differentiation in post-communist societies has major implications for the housing market. People with more disposable income seek to

achieve a better living standard and settle in a more attractive environment. This has been a catalyst for the provision of higher-end products in the housing market. New housing is no doubt accessible to a small segment of affluent households, and home-ownership is perceived as desirable, and a good investment in an inflationary context, particularly after the banking crisis in 1995. Investment in housing is economically attractive for individual households that channel a large fraction of savings towards improving their housing situation. However, the consumption boom among Latvia's middle class and the newly rich might be over, as there appears to be a decline in purchasing power and activity.

The average monthly salary for state and municipal employees in 1996 was LVL 113.25 (\$205), an increase of 14.5 percent compared to 1995. Officially, the minimum subsistence level was set at LVL 53.33, though high inflation in 1992 drastically reduced the living standard of the population. Reportedly, 51 percent of the households had an income below the official subsistence level, while in 1993 this share was reduced to 47 percent. Recent survey results suggest that 49 percent of the households experience food shortages, 58 percent consider their standards poor and only 3.9 percent evaluate their situation as good. However, the official statistics do not include unreported income from the grey economy. Employees in the private sector might receive two or three times their official salaries in cash payments financed by unreported enterprise revenues.

It is expected that less than 5 percent of the households will be able to enter the housing market in the foreseeable future. The greatest demand is demonstrated in the housing markets in Riga, where the upper-end of the housing market aspires to high quality housing and will pay premium prices in cash for the right product. The demand in this limited market is for suburban, single-family homes on estate-sized lots, in addition to large and centrally-located luxury apartments.

EXPORT OPPORTUNITIES AND STRATEGIES

Overview

Latvia offers a number of opportunities for Canadian housing exporters due to its considerable success in implementing economic and political reforms.

Latvia is a growing market in Central and Eastern Europe for Canadian housing products, worth \$1.09 million between 1993-95. The most dynamic growth was in the export of prefabricated housing, roof, floor and wall products and HVAC systems. Export volume in 1995 increased 3.5 times compared to 1994 levels. Prefabricated housing and structural components constitute approximately one third of the Canadian housing exports. In general, the market for construction products is volatile and experiences substantial gains and losses from year to year for particular product categories.

Exports to the three Baltic States represent a small but fast growing market for Canadian housing export commodities. The overall increase in most product categories was in the range of 150-200 percent in the first months of 1996 as compared to the same period in 1995. Canadian involvement in the Latvian market is diverse, and active firms include an equal number of developers, builders and product exporters. Most of the exporters operate on a regional basis

exploring business opportunities in the other Baltic States. The value of Canadian building material exports for the period 1993-95 is shown in Table 12.

Export Opportunities

Exports in the residential sector of the Latvian market are quite diverse, with no country achieving a dominant position. Canada's export ranking for building products in the market is low, and sales volumes are generally small.

New House Building

There is significant pent-up demand for housing in Latvia, estimated at approximately 4,000 units per year. Effective demand however, is contingent upon the success of certain economic and political reforms. As these reforms succeed and the Latvian economy adjusts, there will likely be an accelerated growth in wages, dual income families and the further growth of the middle classes, thus spurring housing construction and rehabilitation. Construction work in Riga is focussed on mixed-use developments. Housing that complies with Western standards is in high demand. Most foreigners and expatriates rent downtown apartments through illegal leases; however, those illegal rental agreements are not recognized in cases of landlord and tenant dispute.

Table 12:
Value of Canadian Building Material Exports, 1993-95 (in \$)

	Prefab. buildings	Wood Products	Doors & Windows	HVAC	Roof, Floor, Wall Products	Tools and Equipment	Total per year
1993	-	-	-	-	20,250	13,608	33,858
1994	121,997	-	88,674	-	26,660	7,660	244,991
1995	374,609	95,376	28,000	207,643	115,157	-	820,785
Total per category	496,606	95,376	116,674	207,643	162,067	21,268	1,099,634

Source: Industry Canada's *Strategis* trade data on-line, 1996

- **Provision of Luxury Housing:** A promising niche market exists in the provision of luxury and custom homes on the outskirts of larger cities. The type of house most likely to succeed would be a traditional masonry home with a few upgrades such as HVAC, a custom kitchen, and a security system. Purchasers of this type of housing would be able to pay cash, thus avoiding mortgaging difficulties. Canadian firms could do well in Riga and although volumes are small, there are indications that profit margins might be higher than in Canada.
- **Residential Apartment/Condominium Development:** Trends in income distribution in Latvia suggest that there might be a growing demand for 80-100 m² apartments in medium-density housing developments.
- **Manufactured housing is a medium-term opportunity:** Although interest exists, it is not accepted in the mainstream of housing provision. Canadian labour, material costs, and shipment make the product quite expensive. Additionally, consumer preferences are in favour of the traditionally built home that appears to be a more sound investment. A number of Canadian exporters are exploring the market, attempting to build model homes. What holds a better promise is the transfer of manufacturing and modular technologies, adapted to this market.
- **Conversion or Restoration of Centrally-Located Buildings:** Restoration of historic buildings is very attractive because of their high marketability and resale prices. Mixed-use commercial/residential buildings in Riga's central business district are particularly attractive. Such projects can be undertaken as joint ventures with the Canadian partner financing the restoration or conversion in exchange for future rents, a long-term lease or equity share.
- **Thermal Retrofitting:** The need for thermal retrofitting is great. It is estimated that close to 6 million m² of prefabricated apartment buildings require a thermal retrofit, which will allow annual savings of up to 40 percent of the heating costs. Average annual losses due to poor insulation are in the range of \$5.76 per m². Financing might be available through World Bank and European Bank for Reconstruction and Development (EBRD) programs.

Export of Construction Technologies and Building Materials

There is an immediate need in Latvia for efficient, modern production technologies for housing renewal, and for the production of lower density housing forms.

- **Building material markets offer steady and growing opportunities:** In 1994, Canadian exports of several building products had a significant share of the Latvian market, for example, doors (25 percent), thermo-insulation mineral products (21 percent), and plastic plumbing materials (9.8 percent). However, exporting a wide array of building products would be premature. Prices for materials are reportedly similar to Western Europe, although volumes are smaller. Opportunities for cooperation exist with the local building materials industry, particularly with respect to good quality, low-cost raw materials and qualified labour.
- **Housing Components and Value-Added Products:** Gradual changes are apparent in the types of components used in new housing construction, particularly siding, plastic windows, and pre-hung doors. Each of these

Renovation

The renovation industry is experiencing considerable growth as contractors begin to upgrade properties in prime downtown locations, neglected for more than 50 years. A number of stores are undergoing renovation and upgrading. Demand in downtown Riga comes from a dynamic small business sector. The high turnover makes retail space available quickly which creates excellent opportunities for Canadian building material exporters, especially those engaged in the production of thermo-insulation and hermetic sealing materials, glass packets, light roofing materials, and sanitary ware or plumbing components.

products offer a cost and construction time advantage over their alternatives and therefore seem to be the most promising.

Best Sales Prospects

Market prospects appear to be good for the following products:

- asphalt shingles, roofing systems;
- lightweight structural components (panel assemblies, laminated beams, etc.);
- exterior insulation and technologies for retrofitting of pre-cast concrete panels;
- fibreglass insulation;
- sliding doors, roof windows;
- drywall, wallpaper, paints and finishes;
- vinyl siding and exterior cladding systems;
- builders' hardware and tools;
- lighting;
- security systems; and
- water and heating control and measurement systems.

Export Strategies

The Latvian export market is small but promising. It has grown rapidly, and there have been

significant efforts to improve the business environment and to address areas which impede housing market activities such as financial, legislative and mortgage issues. Strategically, Latvia is attractive as a gateway to the larger regional markets of Russia, Belarus and the other Baltic States. However, Canada faces strong competition from German, Austrian, Italian and Scandinavian firms and products.

There are several things to bear in mind:

- The business environment is changing rapidly for the better. This environment creates great business opportunities, but with commensurate risks.
- Opportunities for Canadian housing exporters are mainly in selected niche markets.
- The attitude towards Canadian imports is positive. However, the market is price sensitive.
- There is less transparency in the business, legal and regulatory environments than in Canada. The best way to evaluate risk is to work closely with business experts operating in Latvia.

Many international business firms offer risk assessment services, market surveys and expert legal counsel for Canadian exporters.

BUSINESS ENVIRONMENT

Overview

Since achieving independence in 1991, Latvia has made striking progress toward restoring a market economy and completing reforms to help it recapture the prosperity of the pre-World War II years. One of the country's strongest business attractions is its capital, Riga, which has emerged as a commercial, financial and transportation hub for the Russia-Baltic region. Latvia is the central area of the three Baltic States; just over a third of its population is concentrated in Riga, the largest city in the Baltic region.

The commercial environment is very friendly to North American companies. Latvia has no controls on import, export, or use and conversion of foreign currencies, making investment and repatriation of profits exceptionally easy. The Latvian government has adopted modern laws establishing copyrights, patents and trademarks. The mechanism for enforcing intellectual property rights protection is under development.

Telecommunications are being rapidly modernized under a commercial agreement between Lattelekom, the Latvian telecommunications company, and a consortium of British and Finnish companies.

Office space is both relatively easy to find and inexpensive US\$6-35 per m². Latvian is the official language, but Russian, English and German are also spoken. English is the West European language of choice in government and business.

In considering the long-term prospects for the Latvian market, Canadians should bear in mind that having achieved freedom after fifty years of occupation, Latvia is a recovering country, not a developing country. Many Latvians have educations, values and aspirations similar to those of middle-class inhabitants in Northern and Western Europe.

North American products face strong competition in the Latvian market from Western and Northern European competitors. Latvia has free trade agreements with the European Union, Norway and

Switzerland. In April 1994, a trilateral free trade agreement between the three Baltic countries went into effect, abolishing all tariffs on industrial products. The Baltic States have reached an agreement to establish a customs union by 1998. Bolstered by historical trade relations between Latvia and their countries, companies from Sweden, Germany and Finland approach the Latvian market with great confidence.

As in other countries to emerge from the old Soviet Bloc, government bureaucracy, corruption and organized crime are the most significant hurdles to trade and investment in Latvia. While these obstacles make it more complex to do business in Latvia than in the West, very few of the foreign companies that have tested the Latvian market have found the problems insurmountable. In part, this is because foreign companies enjoy relatively easy access to senior government officials in this small country.

Most foreign companies doing business in Latvia rate the business environment as among the best to be found in Eastern Europe or the former Soviet Union. However, because the courts and legal system are not yet functioning as they would in the industrialized West and the Latvian regulatory and tax structures are still at a formative stage, there are fairly high levels of uncertainty associated with doing business in Latvia. Foreign companies operating successfully in Latvia accept the higher risk as part of the price of getting in on the ground floor in the expanding East European and Russian markets.

Latvia introduced its national currency in June 1993. The Lat is convertible; the exchange rate (LVL 0.55:\$1 at the end of 1996) is determined by market forces with limited intervention by the Bank of Latvia. There are no restrictions on the import, export, and exchange of foreign currency. These liberal currency policies have attracted a lot of foreign capital into the country. The Bank of Latvia guarantees the Lat in circulation by both foreign currency and state gold reserves.

Visa requirements have been simplified. The government has introduced a one-year multi-entry business visa for LVL 50. The business

community has welcomed the change since long-term residence and work permits are less bureaucratic.

Business Customs

Latvia presents some inconveniences, but few real difficulties for the seasoned business traveller. Visas are available from the Latvian Embassy or may be obtained upon arrival at the Riga airport (valid for only ten days). A visa to either Estonia or Lithuania will also be accepted for entry into Latvia.

The business day starts between 6 and 8 a.m. and ends between 3 and 5 p.m. The maximum number of hours required of staff weekly, is 43, and the maximum number of hours per day is 9. The official holidays observed in Latvia are the following:

**Table 13:
Holidays**

January 1	New Year's Day
March/April (varies)	Easter
May 1	Labour/Constitution Day
June 23-24	Mid-Summer Eve & Day
November 18	Independence Day
December 24	Christmas Eve
December 25	Christmas Day
December 31	New Year's Eve

Business Infrastructure

Latvia is easily reached by air from Western Europe. Travel by car is generally the fastest and most convenient mode of transportation within Latvia and between Riga and the capital of the other two Baltic states. Unleaded gas is available in Riga and at a number of service stations in the countryside; gasoline contamination may be a problem.

Phone, fax and e-mail communications are improving, but can still present problems, especially outside Riga.

In Riga, major hotels, a few quality restaurants and some stores accept credit cards, but it is still

mainly a cash economy. Budget accommodations, fast-food restaurants, smaller retail establishments and outdoor markets are on a cash-only basis. A few commercial banks cash travellers' cheques or provide cash advances against credit cards; service charges are high. Latvian currency, the Lat, may be easily bought or sold at numerous currency exchanges. Outside Riga, travellers should be prepared to pay cash for all expenses.

The availability of modern housing is growing, but still quite limited. Securing housing up to Western standards entails leasing and renovating an apartment to suit tenant needs. Despite recent improvement, hot water may not always be available through municipal district heating systems; major apartment renovations should include installation of hot water heaters.

Street crime is relatively high in Riga; travellers should take the same precautions they would visiting an unfamiliar urban centre. Although drinking water is chlorinated, it is not considered entirely safe because the filtering system does not remove viruses. Boiling drinking water is recommended. Imported spring water is available at many stores. Food contamination is not a serious problem.

Latvia's existing road network requires improvement, the international airport has been brought up to standards, and rail links to Russia are well developed.

Major infrastructure projects underway include the construction of a thermo-electric power plant at the city of Liepaja, and the upgrading of smaller hydropower projects and thermal power plants are to be undertaken in the next few years. Plans for "Via Baltica", which will link Helsinki, Tallinn, Riga, Kaunas (Lithuania's second largest city) and Warsaw, are well underway. The Nordic Investment Bank in Stockholm and other donors will finance the \$180 million modernization project that will provide a high quality transportation corridor, and consequently improve business opportunities.

Direct shipping links between Scandinavia and Riga were cancelled due to bankruptcy disputes with Baltic Lines. This has created a lot of inconveniences for importers. A ferry operates between Liepaja and Karlshamn in southern Sweden three times a week.

Distribution and Sales Channels

The marketing of building products and services in Latvia is inhibited by the lack of large distributors and wholesalers. Imports and retail operations are handled by private companies. Distribution channels are being established, and the most common means of access is through a local partner, or by exporting through a consolidator. Markets are in Riga and in the larger cities of Liepaja and Daugavpils.

Finding a Partner

At present, there are no laws that regulate the relationship between a foreign company and its distributors or agents in Latvia. A distributor relationship can be terminated according to the provisions stipulated in each specific distributor agreement.

A joint venture with a local partner can be a significant help for a Canadian firm that has no experience with the East European business practices. A good bet is a company that is already registered with the Latvian Chamber of Commerce and Industry. It is, however, highly advisable to find out as much as possible about potential partners. The basic data on a local company as well as its credit ratings can be obtained from Latvian companies that are specialized in business information services, but the system is not yet well developed.

If a foreign company decides to set up a subsidiary in Latvia, three forms of business organization are available: the limited liability company (SIA); the joint stock company (AS); and the representative (branch) office of a foreign company.

Limited liability and joint stock companies are established upon registration with the Latvian Enterprise Register. A limited liability company has the rights of a juridical person and may be established with a minimum statutory capital of 2,000 Lats by a physical person or another company. A limited liability company may have up to 50 shareholders.

Companies with more than 50 shareholders, as well as companies that make public offerings of securities or those formed by privatizing state enterprises using privatization certificates must be established as joint stock companies. This is a less

popular form of organization for foreign investors since the structure and legal requirements for registration are more complicated than for limited liability companies. A joint stock company also has the rights of a juridical person. A joint stock company may be established with a minimum statutory capital of 5,000 Lats (higher amounts are required to establish banks, insurance companies, currency exchanges and pawnshops).

Representative offices may be established for up to 5 years with permission from the Ministry of Justice. The fee is \$800. Non-profit organizations may be established for \$50. The establishment of a foreign bank branch is subject to the approval of the Bank of Latvia.

Joint Ventures and Licensing

Foreign companies can be established as: a fully owned foreign capital company, a representative office, a joint venture, or a subsidiary. Major types of companies include: limited liability company; joint stock company; and representative office.

Canadian investors are advised to register as a limited liability company and to consult a Latvian lawyer before establishing a business or intellectual property right in Latvia. One possibility of establishing a legal presence and exploring the business opportunities is to open a representative office of the foreign company.

For Canadian businesses, a joint venture with a local partner is the best strategy. A company registered with the Latvian Chamber of Commerce might be more reliable. Basic data about the local company and its credit ratings can be obtained from local business service companies. However, the system is not well developed and the information might have significant gaps.

Establishing an Office

Representative offices of foreign companies may be established for an initial period of five years with the permission of the Ministry of Justice. The fee for opening a representative office is \$800; extensions cost \$100. Non-profit organizations and branch operations without an office in Latvia may be established for \$50.

The business environment is improving. Office space, administrative, accounting and legal help is available, telecommunications are in place, and

government officials are accessible. Generally, office rents vary from \$5 to \$20 per m², although, in the shopping district, office rents in Astridis House (refurbished by the Swedish company Scanska) are \$25 per m². A popular location for offices in Riga is the Latvian International Business Centre.

It is advisable to use a local law firm to draft leases, particularly with clauses related to future rent increase. The technical infrastructure and facilities in the old city are reported to be in bad condition, with frequent water damage and electricity cut-off. Insurance is extremely important since landlords have no water damage, fire, or other liability insurance.

The work-force in Latvia is highly educated and works for a relatively low wage. Starting salaries for trilingual employees (e.g. Latvian, Russian, English) are a minimum of \$300 per month. Lawyers and bank staff might earn \$1,000-1,800 while construction workers are paid \$340.

Selling Factors and Techniques

The market for consumer products in Latvia is fragmented. Consumer preferences differ significantly among various income, age and ethnic groups.

No reliable data on income distribution is available; according to the research conducted by the Statistics Committee, 13.6 percent of the surveyed households currently experience no financial problems, 56 percent barely make ends meet, 15 percent are in debt (virtually no loans are available for consumption purposes; households in great need for money borrow from friends or relatives), 15.4 percent are not sure of how to characterize their financial situation.

The rich constitute some fraction of those 13.6 percent that are satisfied with their income level. For those people, product and store image is very important. High prices are often seen as indicators of good quality.

Advertising and Trade Promotion

Riga is the focal point for establishing contacts and presenting company information. Most of the trade fairs are organized in the capital. Advertising

and promotional materials for certain types of products need to be written in Latvian. The best advertising value for housing-related products is the trade-type magazines and product catalogues.

Advertising may be conducted freely in any printed or electronic media. The leading newspaper in Latvia is "Diena" (Day), which is published in both Latvian and Russian. The leading business newspapers are "Dienas Bizness" (Business of the Day), published in Latvian, and "Biznes i Baltiya" (Business and the Baltics), published in Russian. "Vakara Zinas" is a popular tabloid. "SM-Segodnia" is widely read by the Russian-speaking population.

Latvia has about 40 television stations, mainly local cable networks. The two state television stations and Latvian Radio, remain the media with the highest ratings and the largest audiences. A minute of commercial time costs LVL 700.

Multinational advertising agencies like DDB Needham, Leo Burnett and DMB&B have entered the market, and market research agencies offer their services to multinational clients. Baltic Media Facts can provide market intelligence on consumer trends and market segments. Advertising in the printed media is highly recommended, with the leading newspapers being Dienas Bizness, Biznes in Baltiya and Diena.

Pricing Products

As in other markets, sales are price sensitive, although the high quality and good reputation of Canadian building materials and products is an asset.

For the middle and lower class, price does matter the most, but due to pent-up demand for luxury goods, purchasing behaviour can at times seem irrational.

Protecting Your Intellectual Property

Latvia has an association agreement with the European Union, so product certification is similar to Western Europe and is moving towards ISO 9000 standards. Approval times vary from a week to three months, although products certified by other European countries will usually be processed quickly.

Applications for the granting of a patent or the registration of a trademark need to be made to the

Latvia patent office, either directly, or through a legal representative. Intellectual property rights might be enforced through Latvian court action. Latvia is a member of the World Intellectual Property Organization. Applications can be made in Latvian, English, Russian, or German. Intellectual property rights may be enforced through Latvian court action.

Need for Local Legal Assistance

Consultation with a Latvian lawyer is recommended before establishing a business or an intellectual property right in Latvia. While a lawyer must be a Latvian citizen to be admitted to the bar, a number of practicing lawyers in Riga are dual-national emigrants who have received their entire legal education in Canada or the U.S.

The Canadian Embassy can help with identifying interested agents, partners and distributors. Products need to be introduced on a very small scale, starting with a minimum order and delivery.

At present, there are no laws that regulate the relationship between a foreign company and its distributors in Latvia. A distributor relationship can be terminated according to provisions outlined in each specific distributor agreement.

Regulatory Issues

Investment Climate: Latvia's successful macro-economic reform, political stability, and supportive government create a favourable climate for investment. Foreign investment is protected under the Investment Law, and both foreign and local investors have equal rights. The acquisition of controlling shares in a Latvian enterprise with assets over \$1 million must be approved by the Cabinet of Ministers. Foreign investors also appear to have equal access to the privatization of state enterprises.

Business Activities: They are regulated by the Law on Entrepreneurial Activities and Business Operations, which serves as the legal framework for establishing, operating and closing a business in Latvia. The commercial code and bankruptcy laws are being revised. Laws adopted on competition and restriction of monopolies limit the ability to create artificial shortages in order to boost prices. Companies proposing a merger that

will result in the control of over 25 percent of the market for particular goods need to have the approval of the Anti-Monopoly Committee.

Taxation: A personal income tax of 25 percent is imposed on salary, entrepreneurial income and profit, income from rental property, and self-employment income. Temporary residents pay tax on income from Latvian sources, while permanent residents are taxed on global income. Social security tax is 28 percent, of which the employees contribution is 9 percent. The following tax rates apply: corporate profit tax (25, 35 or 45 percent); income tax (25 percent); value-added tax (18 percent); and social insurance (28 percent). Canada has signed double taxation agreements with Latvia and Estonia, and negotiations with Lithuania are in progress.

Repatriation of Profits and Capital: A branch of a parent company can repatriate profits and capital with minimal controls, provided that the profits are in hard currency. On cessation of the business, capital can be repatriated.

Real Estate: The Latvian Parliament recently adopted a new law which allows unrestricted foreign ownership of land for office, industrial, development, or residential purposes. Government approval is required only for purchases of land in coastal and conservation areas. Foreigners can buy buildings through joint ventures, and land can be leased for 30 years with an option for renewal. For example, Jacob's Barracks Development, a spectacular office, commercial and residential complex in the old town, is held under a long-term lease with the City of Riga.

Exporting: Most housing-related products can be imported without a licence. Value-added tax is normally applicable on an equal basis with goods manufactured in Latvia. The importation of products does not generally require extensive paperwork, with customs clearance at the final destination. The onward transportation of goods by road and rail is adequate, though importers complain about long waits at border crossings. Lithuania, Latvia and Estonia signed an agreement in March 1996 relating to customs documentation and transit freight regulations. It is expected to reduce custom delays. Canadian exporters often ask for cash in advance until they have established a track record with new customers. Canada's Export Development Corporation (EDC) can

provide medium- and long-term financing to foreign buyers of Canadian goods and services and short-term insurance when dealing with terms other than cash in advance. Canada has signed a Foreign Protection Agreement with Latvia.

Custom Duties: The liberalization of foreign trade has resulted in lower tariffs for most agricultural and industrial products originating from within the European Union (EU) since 1996. Under the tariff law adopted in 1994, custom tariffs on raw materials, spare parts and capital goods are 0.5-1 percent.

Imports: There are no quantitative constraints on imports of housing sector products and services. Latvian tariff classifications are based on the harmonized commodity description and coding system. In addition to tariffs, imports are subject to 18 percent value-added tax (VAT). Zero tax is levied on export services and international transportation and fixed investment goods are not subject to VAT provided that the importer is a registered VAT payer. Transit freight (mainly to and from Russia) must take place in custom convoys. The fee is LVL 100. A high security deposit, refundable after the shipment has left Latvian territory may be paid at the border.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).

These issues should be taken into consideration when assessing financial risk in Latvia.

- It is doubtful how much longer the current coalition government, which encompasses parties with fundamentally different policy standpoints, can hold together. Following the banking crisis of May 1995, the political parties are still working together, but for how long is questionable.
- Economic growth in 1995 was affected by the banking crisis, but was expected to resume as the crisis subsides. An International Monetary Fund (IMF) Stand By Arrangement was in place until February 1997.
- A strong, and possibly overvalued currency is fuelling imports. The renewal of donor aid serves to underpin GDP growth.
- The overall risk profile remains dominated by a degree of political instability, despite improvements in the economic risk environment.
- ILCs are the norm, delays in payment are common. Short-term cover is available from the EDC on a case-by-case basis; however is open, subject to an overall exposure guideline over the medium and long-term. Foreign investment insurance is available on a case-by-case basis.

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CONTACTS

Canada Mortgage and Housing Corporation

Housing Export Centre

700 Montreal Road
Ottawa, Ontario K1A 0P7

Tel.: 1-800-465-6212 or
(613) 748-2000
Fax: (613) 748-2302

Canadian Government Departments and Services

Department of Foreign Affairs and
International Trade (DFAIT)

InfoCentre
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2

Tel.: 1-800-267-8376 or
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Fax: (613) 996-9709
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InfoCentre Bulletin board:
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(613) 944-1581

Northern Europe Division (REN)
125 Sussex Drive
Ottawa, ON K1A 0G2

Tel.: (613) 995-8784
Fax: (613) 995-6319

Canadian Commercial Corporation
(CCC)

50 O'Connor Street, 11th Floor
Ottawa, Ontario K1A 0S6

Tel.: (613) 996-0034
Fax: (613) 995-2121

Canadian Embassy

Doma Laukums 4
Riga LV-1977
Republic of Latvia

Tel.: (011-371) 783-0141
Fax: (011-371) 783-0140

International Trade Centres

Newfoundland

International Trade Centre
P.O. Box 8950
Atlantic Place
215 Water Street
Suite 504
St. John's, NF A1B 3R9

Tel.: (709) 772-5511
Fax: (709) 772-5093

Prince Edward Island

International Trade Centre
P.O. Box 1115
Confederation Court Mall
134 Kent Street
Suite 400
Charlottetown, PE C1A 7M8

Tel.: (902) 566-7443
Fax: (902) 566-7450

Nova Scotia

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International Trade Centre
5 Place Ville-Marie
Seventh Floor
Montreal, PQ H3B 2G2

Tel.: (514) 283-6328
Fax: (514) 283-8794

Ontario

International Trade Centre
Dominion Public Building
1 Front St. West
Fourth Floor
Toronto, ON M5J 1A4

Tel.: (416) 973-5053
Fax: (416) 973-8161

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Saskatchewan	International Trade Centre The S.J. Cohen Building 119-4 th Avenue South Suite 401 Saskatoon, SK S7K 5X2	Tel.: (306) 975-5315 Fax: (306) 975-5334
Alberta <i>* Edmonton office is also responsible for Northwest Territories</i>	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3 510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 495-2944 Fax: (403) 495-4507 Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia <i>* Vancouver office is also responsible for the Yukon</i>	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

Export Development Corporation (EDC)

Ottawa	151 O'Connor Street Ottawa, ON K1A 1K3	Tel.: (613) 598-2500 Fax: (613) 237-2690
Vancouver	One Bentall Centre 505 Burrard Street Suite 1030 Vancouver, BC V7X 1M5	Tel.: (604) 666-6234 Fax: (604) 666-7550
Calgary	510-5th Street S.W. Suite 1030 Calgary, AB T2P 3S2	Tel.: (403) 292-6898 Fax: (403) 292-6902
Winnipeg <i>*office also serves Saskatchewan</i>	330 Portage Avenue Eighth Floor Winnipeg, MB R3C 0C4	Tel.: (204) 983-5114 Fax: (204) 983-2187
Toronto	National Bank Building 150 York Street Suite 810 P.O. Box 810 Toronto, ON M5H 3S5	Tel.: (416) 973-6211 Fax: (416) 862-1267
London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

Latvian Government Offices in Canada

Embassy of Latvia	230 Clemow Avenue Ottawa, ON K1S 2B6	Tel.: (613) 238-6014 Fax: (613) 238-7044
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Multilateral Organizations

World Bank	Washington, D.C. 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, D.C. 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726
Latvian Chamber of Industry and Commerce	Brivibas iela 21 LV-1849 Riga, Latvia	Tel.: (011-371-7) 22 55 95 Fax: (011-371-7) 82 00 92 E-mail: chamber@lcc.org.lv
Ministry of Environmental Protection and Regional Development	Peldu iela 25 Riga LV-1494 Latvia	Tel.: 371-2-223-612 Fax: 371-2-228-159
Latvian International Business Centre	Elizabetes iela 2 LV-1340 Riga, Latvia	Tel.: (011-371) 32 06 19

Business and Professional Organizations in Canada

Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, ON K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218
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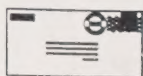
Canadian Banks with International Offices

Bank of Montreal	11 Walbrook Street London, England EC4N 8ED	
Canadian Imperial Bank of Commerce European Operations Office	Cottons Centre Cottons Lane London, SE1 2QL England	Tel.: (011-441-71) 234-6000 Fax: (613) 563-9218
National Bank of Canada Europe Regional Office	Princes House 95 Gresham Street London, England EC2V 7LU	
Royal Bank of Canada AG	P.O. Box 71 07 14 Lyonner Strasse 15 60497 Frankfurt am Main, Germany	
The Toronto-Dominion Bank	Trinton Court 14/18 Finsbury Square London, England EC2A 1DB	
Hongkong Bank of Canada	10 Lower Thames Street P.O. Box 506 London, England EC3R 6AE	

International Consultants and Providers of Business Services

Arthur Andersen & Co.	1 Ganibu Dambis 15 LV-1045 Riga, Latvia	Tel.: (011-371-2) 32 45 19 Fax: (011-371-7) 34 81 70
Coopers & Lybrand	Kalku 15 LV-1050 Riga, Latvia	Tel.: (011-371-2) 22 13 04 Fax: (011-371-2) 83 00 55
Diaga Freimane Director of Advertising	Metro Lacplesa iela LV-1010 Riga, Latvia	Tel.: (011-371) 733 33 63 Fax: (011-371) 882 83 90
Baltic Times (Main Office)	Balasta dambis 3 LV-1081 Riga, Latvia	Tel.: (371-2) 46 21 19 Fax: (371-2) 75 01 59

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Charge to VISA, American Express or MasterCard.

To avoid double billing, please do not send confirmation.



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1-613-748-2016

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To avoid double billing, please do not send confirmation. A fax will be treated as an original order.

METHOD OF PAYMENT

Check only one (individuals must prepay all orders.)

<input type="checkbox"/>	Please charge my
<input type="checkbox"/>	VISA <input type="checkbox"/> American Express <input type="checkbox"/> MasterCard <input type="checkbox"/>
Card Number	
Expiry Date	
Signature	
<input type="checkbox"/>	Payment enclosed \$ _____
Please make cheque or money order payable to CMHC	

Please Print

Name		
Company or Organization	Position Title	
Address		
City	Province/State/Country	Postal/Zip Code
Telephone Number ()	Fax Number ()	

To Complete See Example on Reverse Side

ORDER NUMBER	REPORT TITLE	<div>1</div> QTY	<div>2</div> ITEM AMOUNT \$	<div>3</div> TOTAL \$ AMOUNT <div>1</div> x <div>2</div>	<div>4</div> SHIPPING POINTS	<div>5</div> TOTAL SHIPPING POINTS <div>1</div> x <div>4</div>
	Please be sure the order number and report title match the listing				3	
					3	
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SOURCE (How did you hear about the product?) TV AD <input type="checkbox"/> <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> <input type="checkbox"/> OTHER	Subtotal Column 3		A	Subtotal Column 5 Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount. SEE EXAMPLE ON REVERSE
	SHIPPING CHOICE ADD Shipping & Handling		B	
	Regular Mail <input type="checkbox"/> Courier <input type="checkbox"/>			
	Subtotal (Add A + B)		C	
	ADD GST (7% of subtotal C)		D	
	Registration #100756428			
U.S. AND INTERNATIONAL ORDERS Please pay subtotal C in U.S. Funds (do not add GST or PST)	Subtotal (Add C + D)		E	
	Quebec residents add PST (6.5% of Subtotal E)		F	
	Total (Add E + F)		G	

Shipping and Handling Charges

Points	Canada Regular Rates	Canada Courier Rates	U.S. Regular Air Rates	U.S. Courier Rates	International Regular Air Rates	International Courier Rates	Europe Courier Rates
1	2.55	5.00	5.00	11.00	7.00	24.00	19.00
2	3.65	8.00	6.50	14.00	9.00	30.00	25.00
3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
181 to 200	10.98	35.60	69.38	176.75	250.29	658.75	269.75
201 to 220	11.48	40.45	75.05	190.75	N/A	718.75	289.75
221 to 240	11.99	43.30	80.72	204.75	N/A	778.75	309.75
241 to 260	12.49	46.15	86.49	218.75	N/A	838.75	329.75
261 to 280	13.00	49.00	92.21	232.75	N/A	901.75	349.75
281 to 300	13.50	51.85	97.88	246.75	N/A	958.75	369.75
Estimated Delivery times	2-3 weeks	5-10 days	2-3 weeks	5-10 days	4-8 weeks	12 days	12 days

Prices Subject to Change

CMHC Return Policy

We will replace damaged materials and correct shipping errors if we are notified within thirty days after you receive your shipment. If an item is not defective or not mistakenly shipped, then it must be returned by you at your cost within thirty days of receipt. It must arrive here in resaleable condition for you to receive credit.

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Example: To complete order form and determine shipping and handling charges

ORDER NUMBER	REPORT TITLE <small>Please be sure the order number and report title match the listing</small>	1 QTY	2 ITEM AMOUNT \$	3 TOTAL AMOUNT 1 x 2	4 SHIPPING POINTS	5 TOTAL SHIPPING POINTS 1 x 4
NHA 8003	Brazil	1	35.-	35.-	3	3
NHA 8009	Western Europe	2	23.-	46.-	3	6
					3	
					3	
SOURCE <small>(How did you hear about the product?)</small> TV AD <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> OTHER		Subtotal Column 3		A 81.-	Subtotal Column 5	
		SHIPPING CHOICE Regular Mail <input checked="" type="checkbox"/> Courier <input type="checkbox"/>		B 6.18	Refer to Shipping and Handling Charges on the back of this form for the shipping and handling amount.	
ADD Shipping & Handling		C 87.18				
Subtotal (Add A + B)		D 6.10				
ADD GST (7% of subtotal C)		E 93.28				
Subtotal (Add C + D)		F -				
U.S. AND INTERNATIONAL ORDERS Please pay subtotal C in U.S. Funds (do not add GST or PST)		Quebec residents add PST (6.5% of Subtotal E)		G 93.28		
		Total (Add E + F)				

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